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DRAFTED BY TREASURY;RVASTINE:BM

APPROVED BY EB - JULIUS L. KATZ

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P 192233Z MAY 76

FM SECSTATE WASHDC

TO ALL OECD CAPITALS PRIORITY

AMEMBASSY NAIROBI

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NAIROBI FOR US DEL

E.O. 11652: N/A

TAGS:ETRD, OECD

SUBJECT: XCSS MAY 13-14: DISCUSSION OF TRADE PLEDGE

1. SUMMARY. THE XCSS MET IN A SPECIAL RESTRICTED SESSION (ATTENDED BY JLKATZ AND VASTINE FOR US) ON FRIDAY MORNING FOR SEVERAL HOURS TO DISCUSS (A) DEVELOPMENTS AT NAIROBI, (B) U.S. AND OTHER COUNTRIES' PROPOSALS AT NAIROBI, (C) FOLLOW-UP TO NAIROBI IN CIEC.

THERE WAS AGREEMENT THAT THE TONE OF UNCTAD WAS CONSTRUCTIVE AND THAT AN ATMOSPHERE OF NEGOTIATION, NOT CONFRONTATION HAD BEEN CREATED. MEMBERS OF THE XCSS,
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INCLUDING REPRESENTATIVES OF FRANCE, ITALY, GERMANY, AND

JAPAN EXPRESSED POSITIVE REACTIONS TO THE IRB. THE JAPANESE REPRESENTATIVE WAS PARTICULARLY CLEAR ABOUT JAPANESE INTEREST IN AN IRB OR SIMILAR MECHANISM. DISCUSSION ON THE FRENCH "UMBRELLA FUND- FOR BUFFER STOCK FINANCING SHOWED THAT THERE IS INTEREST IN THE FRENCH PROPOSAL AS THE BASIS FOR A POSSIBLE COMPROMISE AT UNCTAD. WITH REGARD TO UNCTAD FOLLOW-UP AND THE FUTURE ROLE OF CIEC, THERE WAS GENERAL AGREEMENT THAT CERTAIN ISSUES MUST BE "SELECTED OUT" OF THE GLOBAL SET OF CIEC ISSUES FOR CONCENTRATION BY CIEC DURING ITS SECOND HALF, BUT THERE WAS

ALSO AGREEMENT THAT ACHIEVING THIS OBJECTIVE WOULD BE A DELICATE TASK, NOT TO BE APPROACHED FRONTALLY. ANY CONCERTED DEVELOPED COUNTRY EFFORT TO SELECT OUT ISSUES FOR CONCENTRATION AT THE CIEC HIGH OFFICIALS MEETING ON JULY 8 COULD RESULT IN AN EXPLOSIVE BACKLASH BY THE G-19, WHICH, TO PRESERVE ITS CREDIBILITY WITH THE G-77, MUST INSIST ON RETAINING THE GLOBAL APPROACH. CONSENSUS WAS THAT PRIORITIES WILL BE ESTABLISHED GRADUALLY THROUGH A PROCESS OF "DECANTATION" WHICH WILL FILTER OUT THE "SEDIMENT" AND LEAVE THE IMPORTANT ISSUES. FINALLY, IT WAS AGREED THAT THE XCSS SHOULD MEET AGAIN ON JULY 6 TO PREPARE FOR THE CIEC OFFICIALS MEETING ON JULY 8.

2. JOLLES OPENED WITH AN IMPRESSIVE TOUR D'HORIZON OF CIEC, UNCTAD AND RELATED ISSUES. HE CONCLUDED THAT THE CIEC HAD ESSENTIALLY BEEN POSITIVE BUT THAT IN GENERAL BOTH SIDES HAVE NOT DONE MORE THAN MAKE EXPOSITIONS OF THEIR ORIGINAL POSITIONS. HE CONCLUDED THAT THE POLITICAL CLIMATE AT NAIROBI WAS "NOT TOO BAD" AND IN SPITE OF THE INDIVIDUAL DIFFERENCES AMONG OECD COUNTRIES, THE WAY IN WHICH VIEWS HAD BEEN COORDINATED HAD PROVED TO BE HELPFUL. HE ASKED THAT THE XCSS DISCUSS THE CONCRETE PROPOSALS MADE BY SOME COUNTRIES (HE MEANT THE U.S. AND FRANCE) AT UNCTAD TO SEE WHAT RAPPROCHEMENT WAS POSSIBLE. ABOUT THE FORTHCOMING CIEC MEETINGS, JOLLES SAID THAT EVEN THOUGH THE G-19 WERE NOT SATISFIED, THEY VALUED THE LINK CIEC PROVIDES. HE SAID THAT THE DEVELOPED COUNTRIES SHOULD NOW AGREE ON CLEAR OBJECTIVES, AND A STRATEGY, AND ASKED FOR COMMENTS.

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3. FRAU STEEG CONFIRMED JOLLES' VIEW OF UNCTAD. SHE SAID HER GOVERNMENT THINKS THE IRB IS A GOOD IDEA, BUT ASKED FOR AN ELABORATION.

4. KATZ EXPLAINED THE ELEMENTS OF THE IRB IN SUCH A WAY AS TO RESPOND TO A NUMBER OF THE QUERIES THAT HAD BEEN EXPRESSED. HE MADE CLEAR THAT THE BANK WAS INTENDED TO

EXPAND PRODUCTIVE CAPACITY IN MINERALS AND ENERGY IN THE DECADES AHEAD AND BECAUSE OF THE BAD TIMES INVOLVED, LDC CONCERNS ABOUT EXCESSIVE CAPACITY WERE UNWARRANTED. HE SAID (IN SPECIFIC RESPONSE TO A COMMENT BY YOSHINO) THAT THE U.S. IS CONVINCED THE IRB IS A GOOD IDEA, BUT THAT THE U.S. IS NOT PREPARED TO PAY FOR THE IRB BY ACCEDING TO UNRELATED PROPOSALS. HE ESTABLISHED THAT THE IRB IS NOT INTENDED AS AN ALTERNATIVE TO THE COMMON FUND.

5. FROMENT-MAURICE EXPLAINED THAT FOURCADE'S PROPOSAL FOR AN "UMBRELLA FUND" IS AN EFFORT TO MEET THE G-77 HALF-WAY. HE SAID A LIST OF COMMODITIES SHOULD BE SELECTED FOR "TRUE" NEGOTIATIONS, WITHIN A FIRM TIMETABLE TO SHOW POLITICAL WILL. THESE AGREEMENTS WOULD INCLUDE BUFFER STOCKS, AND THESE STOCKS WOULD THEN BE LINKED IN SOME SORT OF COMMON FUND. THE FUND WOULD BE MADE UP OF THE FUNDS OF THE INDIVIDUAL BUFFER STOCKS, AND WOULD BE SUPPLIED FROM EXISTING OR NEW INTERNATIONAL FINANCIAL INSTITUTIONS, BUT NOT BY NEW PUBLIC AID FLOWS. HE SAID THAT CONTACTS WITH THE G-77 AND THE UNCTAD SECRETARIAT INDICATE THE POSSIBILITY OF A COMPROMISE ALONG THESE LINES.

6. FROMENT-MAURICE SPOKE OF INVESTMENT AS A SEPARATE ASPECT OF THE COMMODITY PROBLEM. HE SAID HE FOUND THE U.S. INVESTMENT PROPOSALS VERY INTERESTING, AND SAID THEY COULD PERHAPS FORM PART OF THE "OVERALL PACKAGE". HE SAID THAT ANY BANK MUST BE LINKED WITH PRICE STABILIZATION, THUS DRAWING THE LINK BETWEEN THE FRENCH BUFFER STOCK FINANCING PROPOSAL AND THE IRB. JOLLES COMMENTED THAT THIS WAS A VERY INTELLIGENT WAY TO "MARRY" THESE TWO APPROACHES, AND SAID THE ELEMENTS OF A COMPROMISE WERE NOW CLEARLY ON THE TABLE. YOSHINO IMMEDIATELY INDICATED AN INTEREST IN SUCH A MARRIAGE, STRESSING AGAIN JAPAN'S INTEREST IN LIMITED OFFICIAL USE

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SECURING SUPPLY THROUGH A DEVICE SUCH AS IRB. THE SPANISH REPRESENTATIVE AGREED.

7. KATZ THEN EMPHATICALLY RESTATED THE U.S. APPROACH TO COMMODITY AGREEMENTS AND BUFFER STOCK FINANCING. HE SAID THE FRENCH PROPOSAL HAD AN ATTRACTION IN THAT IT DID NOT PRECEDE COMMODITY NEGOTIATIONS, BUT CAME LATER. NONETHELESS, HE SAID IT HAS SERIOUS SHORTCOMINGS. FOR EXAMPLE, WHY WOULD PRODUCERS OF TIN WANT TO SHARE OR LINK THEIR BUFFER STOCK FUND WITH THE PRODUCERS OF COCOA, ALL OF WHOM ARE DIFFERENT COUNTRIES? HOW COULD THE UMBRELLA FUND BE SUBSTANTIAL ENOUGH TO COUNTERACT THE EFFECT OF THE SYNCHRONIZED CYCLICAL MOVEMENTS OF A NUMBER OF COMMODITIES SIMULTANEOUSLY?

8. FRAU STEEG EXPRESSED HER GOVERNMENT'S STRONG BELIEF THAT THERE COULD BE NO AGREEMENT ON A COMMON INSTITUTION IN THE SENSE OF A COMMON BUFFER STOCK MANAGEMENT ORGANIZATION. THERE WAS A UNANIMOUS VIEW THAT IF AN UMBRELLA FUND WERE ESTABLISHED, IT WOULD BE ONLY FOR BUFFER STOCK FINANCING, NOT FOR BUFFER STOCK MANAGEMENT.

9. JOLLES THEN GUIDED THE DISCUSSION TO CIEC. HE SAID THE JULY HIGH OFFICIALS MEETING IS VERY IMPORTANT AND

THAT SELECTING OUT ISSUES ON WHICH CIEC SHOULD CONCENTRATE IS THE ONLY WAY TO MAKE CIEC USEFUL. HE ASKED HOW THIS COULD BE DONE.

10. CONSENSUS WAS THAT CONCEPT OF SELECTIVITY CANNOT BE MENTIONED. LDC'S HAVE INSISTED THAT CIEC IS A GLOBAL EXERCISE. A G-8 INSISTENCE ON SELECTING OUT ITEMS ON WHICH WE WOULD PREFER TO CONCENTRATE WOULD OFFEND G-19. FROMENT-MAURICE OFFERED THE CONCEPT OF "DECANTATION", IN WHICH THE SUBJECTS WOULD BE SELECTED OUT FOR CONCENTRATION SLOWLY OVER THE COMING MONTHS, LEAVING THE MOST IMPORTANT ONES FOR RESOLUTION AT THE END, AND FILTERING OUT THE UNIMPORTANT ONES. THERE WAS SIGNIFICANT AGREEMENT WITH THIS CONCEPT OF DECANTATION AS A PROCESS OF NATURAL SELECTION, AND AGREEMENT THAT, TO THE EXTENT POSSIBLE, THE JULY CIEC MEETING SHOULD BE USED TO ATTEMPT LIMITED OFFICIAL USE

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TO CREATE PRIORITIES JOINTLY WITH THE G-19. IT WAS NOTED THAT AT ONE TIME PERREZ-GUERERO HAD PUT FORTH A LIST OF 11 TOPICS ON WHICH CIEC SHOULD CONCENTRATE, BUT HAD EXPERIENCED A HOSTILE REACTION FROM OTHER MEMBERS OF THE G-77, SO THAT HE HAD CLEARLY PULLED BACK AND IS NOW QUITE CAUTIOUS. BUT THERE WAS A FEELING THAT P-G WOULD STILL TRY TO MOVE TOWARD ESTABLISHING PRIORITIES.

11. THE POSSIBILITY WAS MENTIONED THAT THE CIEC COULD BE EXTENDED BEYOND DECEMBER. JOLLES SAID THE SUBJECT WAS EXTREMELY SENSITIVE WITH P-G WHO THOUGHT THAT SOME MEANS OF EXTENSION POSSIBLY BUT MATTER SHOULD NOT BE RAISED NOW. THE DUTCH REPRESENTATIVE SAID THAT THERE WAS AN OFF-THE-RECORD UNDERSTANDING AMONG THE G-19 THAT THE DIALOGUE MIGHT HAVE TO BE CONTINUED AFTER THE END OF THE YEAR, IF ONLY FOR A FEW MONTHS. NO ONE, HOWEVER, SUGGESTED THAT THE CIEC SHOULD CONTINUE INDEFINITELY. RATHER, IT MIGHT BE NECESSARY TO EXTEND CIEC FOR A SHORT PERIOD IN ORDER TO WRAP UP NEGOTIATIONS ON CERTAIN ITEMS.

12. THERE WAS DISCUSSION OF THE EXTREMELY CROWDED

AGENDA OF OECD AND CIEC MEETINGS AFTER UNCTAD IN JUNE
AND JULY BEFORE THE CIEC OFFICIALS MEETING. IT WAS
AGREED THAT ANOTHER XCSS MEETING IS NECESSARY BEFORE
THAT MEETING, AND TUESDAY, JULY 6, WAS AGREED AS THE
DATE. ROBINSON

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